South West Water

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Dear Sir or Madam

UN-INVOICED WHOLESALER CHARGES IN THE EVENT OF UNPLANNED RETAILER EXIT

Thank you for the opportunity to provide comments on the potential recovery of un-invoiced Wholesale charges through both the RFI mechanism and the Credit Security process.

In Appendix 1 we set out our responses to the specific consultation questions.

SWW is supportive of both proposed amendments. We note the different timing in relief obtained for un-invoiced revenue (in AMP) compared to invoiced bad debt (end of AMP) but agree that this is appropriate given the specific circumstances of Retailer failure.

For the additional access to credit support to recover un-invoiced balances, SWW believes this to be an appropriate action to protect the wider market from additional costs. We have also put forward a view that further consideration may be required to permit subsequent invoices to be raised if there is sufficient headroom in the credit support held to facilitate recovery. This would ensure appropriate tax treatment of funds received and provide support for claims made against, for example, letters of credit where the provider does not have access to financial settlement data.

We hope that you find our comments helpful. Please contact us if you would like further detail.

Yours faithfully

[redacted]

Lisa Gahan
Regulatory Director
D: [redacted]
E: [redacted]

APPENDIX 1

Question 1. Does our proposed approach deliver the following policy aim in a way that is consistent with our statutory duties?

> **"in the event of a Retailer's unplanned exit from the business retail market, a Wholesaler should be able to recover relevant un-invoiced revenues for services that the Wholesaler has provided to that Retailer - but were not due for invoicing or had not been invoiced - at the point of Retailer failure."**

SWW agrees to the proposed change as it will align both invoiced and un-invoiced revenues. As both revenue streams will be disclosed in the APR and reconciled against the allowed revenue in the RFI calculation it is appropriate that relief is provided on unrecoverable un-invoiced amounts.

An additional disclosure in Table 2I to distinguish between invoiced and un-invoiced revenues would support the commentary and then flow through to Table 2M and the RFI calculation, allowing full visibility of amounts claimed through cost sharing.

Due to the timing of the market billing cycle and the availability of meter readings, it is worth noting that un-invoiced revenues may not be fully crystallised until the last RF settlement is issued. As a result, any adjustments to the RFI for an unplanned Retailer exit may impact the RFI calculations for several financial years.

Question 2. Do you agree that it is appropriate to apply company specific Totex cost sharing rates to amounts relating to un-invoiced revenue to be recovered via the RFI mechanism in the event of a Retailer failure?

Yes, this is in line with the overall cost sharing mechanism.

Question 3. Do you have views that alternative approaches may be more effective or straightforward to implement?

No, SWW thinks the above approach will be quite straightforward to implement. Retailer failure will be known events and unbilled amounts are easily identified from Financial Settlements that continue to be issued for all Retailers even if they have left the market.

Proposed changes to the WRC:

4. Do you agree with the proposed change to the WRC? Please explain your answer.

SWW agrees that the credit security held should be used to clear all balances owed by a failed Retailer, even if they are unidentified at time of Retailer failure.

Due to the financial settlement and meter reading cycles the total balance owed will only be identified by subsequent financial settlements (the final RF will be issued 18 months after the date of Retailer exit). At any point during these 18 months the amount owed may change.

The current position is that upon Retailer exit no further invoices will be raised to that Retailer as they will be unrecoverable.

If the WRC is amended to permit credit security to be used to clear subsequently identified balances, then the WRC will also need to permit further invoices to be raised. This will ensure that recognised revenue reflects charges collected and also ensures that VAT is correctly dealt with. It is also unlikely that the provider of a letter of credit or guarantee will accept their responsibility to settle charges without production of a valid invoice.

Once the credit security has been fully utilised / time period for claims expired, then any further balances will remain un-invoiced and can be covered by the RFI process for un-invoiced revenue.

5. Do you agree with proposed amendments to the legal drafting? Please explain your answer.

SWW agrees with the intention of the amendment to the WRC. We think further clarification and drafting may be required around the ability to issue invoices after a Retailers exit from the market, where there is headroom in the credit security balance to permit it.

6. Do you agree that the proposed change to the WRC furthers the objectives and principles set out in WRC Schedule 1, as described in section 4 above?

SWW agrees with the intention of the amendment to the WRC and believes this would be a benefit / enhancement to the market.